

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE

**REPORT ON FINANCIAL STATEMENTS
(with required supplemental information)**

YEAR ENDED JUNE 30, 2005

CONTENTS

Page

Independent auditors' report	iv - v
---	--------

Management's Discussion and Analysis	v - x
---	-------

Basic financial statements

Government-wide financial statements

Statement of net assets	1
-------------------------------	---

Statement of activities	2
-------------------------------	---

Fund financial statements

Balance sheet – governmental funds.....	3
---	---

Statement of revenues, expenditures and changes in fund balances - governmental funds.....	4
---	---

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	5
---	---

Notes to financial statements.....	6 - 19
------------------------------------	--------

Required supplementary information	20
---	----

Budgetary comparison schedule – general fund.....	21
---	----

Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	22 - 23
---	---------



Iamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Racek
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
West Michigan Academy of Environmental Science
Walker, Michigan

September 28, 2005

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Michigan Academy of Environmental Science (the Academy), as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of West Michigan Academy of Environmental Science's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of West Michigan Academy of Environmental Science as of June 30, 2005 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2005, on our consideration of West Michigan Academy of Environmental Science's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
West Michigan Academy of Environmental Science

September 28, 2005

The management's discussion and analysis and budgetary comparison information on pages v through x and 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of West Michigan Academy of Environmental Science's annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- The Academy had a decrease in the general fund balance of \$49,562. This gives the Academy a general fund balance of \$48,539.
- The Academy retired \$224,981 in long-term debt during the year.
- The Academy invested \$88,679 in capital assets during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1
Organization of West Michigan Academy of Environmental Science's Financial Report

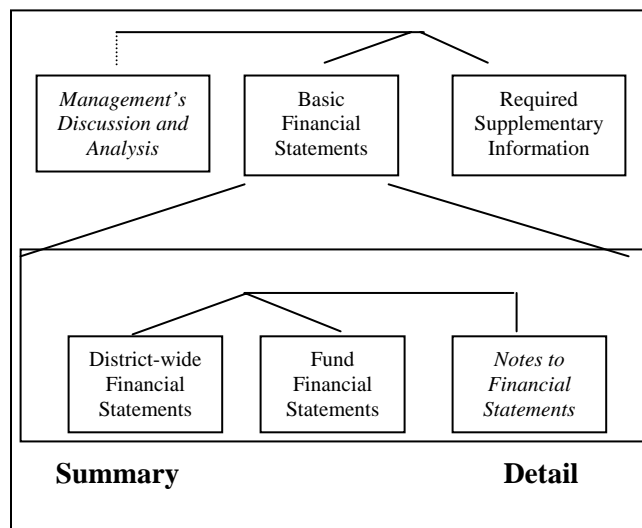


Figure A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities – The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or show that it is properly using certain revenues (like school lunch).

The Academy has only governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets of \$1,725,772 improved by \$132,876 during the year. See Figures A-3 and A-4.

The total revenues decreased by 5.7% to \$3,156,528. State aid foundation allowance included in revenue from state sources accounts for 72.5% of the Academy's revenue. The blended enrollment declined 19 students in 2005 to 329 students. This resulted in a decline in budgeted state foundation allowance payments of approximately \$62,000.

The total cost of instruction increased by 7.6% to \$1,458,816. Total support services decreased by 9.2% to \$1,215,229.

Academy governmental activities

Figure A-3		
West Michigan Academy of Environmental Science's Net Assets		
	2005	2004
Current assets	\$ 545,357	\$ 600,614
Restricted cash	140,488	194,294
Capital assets, net	3,852,830	3,841,068
Total assets	4,538,675	4,635,976
Current liabilities	569,568	679,214
Long-term liabilities	2,243,335	2,435,000
Total liabilities	2,812,903	3,114,214
Net assets(deficit):		
Invested in capital assets, net of related debt	1,422,312	1,226,068
Restricted for debt service	222,423	194,294
Unrestricted	81,037	172,534
Total net assets	\$ 1,725,772	\$ 1,592,896

Figure A-4		
Changes in West Michigan Academy of Environmental Science's Net Assets		
	2005	2004
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 649,838	\$ 860,406
Charges for service	18,079	900
General revenues:		
State aid - unrestricted	2,288,740	2,350,550
Investment	1,947	2,197
Incoming transfers and other	197,924	134,360
Total general revenues	2,488,611	2,487,107
Total revenues	3,156,528	3,348,413
Expenses:		
Instruction	1,458,816	1,356,017
Support services	1,215,229	1,338,722
Community services	4,436	72,200
Food services	160,217	120,022
Athletics		4,916
Interest and fees on long-term debt	108,037	34,965
Unallocated depreciation	76,917	81,472
Total expenses	3,023,652	3,008,314
Change in net assets	\$ 132,876	\$ 340,099

Financial analysis of the Academy's funds

The financial operation of the Academy is considered stable even though there was a decrease in the fund balance of the general fund of \$49,562. The fund balance at June 30, 2005 is \$48,539. There was a 1.6% decrease in general fund revenue and a 14.1% increase in expenditures for instructional programs and a decrease of 9.2% in expenditures for support services.

The general fund transferred \$42,101 to the food service fund to cover operational short falls. The excess of expenditures over revenues (prior to transfers from the general fund) in the special revenue fund was \$33,868 compared to \$43,668 in 2004.

The debt service fund paid an additional \$40,000 of bond principal in 2005. This was the primary cause of the decrease in fund balance of \$26,371.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget to stay within its budgetary plan.

While the Academy's final budget for the general fund anticipated revenues would exceed expenditures and other financing sources or uses by \$57,729, the actual results for the year showed a decrease in fund balance of \$49,562.

Actual revenues were \$25,263 less than budgeted, due primarily to the reductions in state funding.

The actual expenditures were \$51,462 over budget primarily due increases in cost of instruction.

Capital asset and debt administration

Capital assets

As of June 30, 2005, the Academy had invested \$3,852,830 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net increase of \$11,762 from the beginning of the year. Total depreciation expense for the year was \$76,917. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5				
West Michigan Academy of Environmental Science's Capital Assets				
	2005			2004
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Buildings	\$ 2,565,087	\$ 98,328	\$ 2,466,759	\$2,518,060
Furniture and equipment	176,976	38,122	138,854	106,797
Technology	117,263	82,077	35,186	2,305
Vehicles	15,000	2,969	12,031	13,906
Land	1,200,000		1,200,000	1,200,000
Total	<u>\$ 4,074,326</u>	<u>\$ 221,496</u>	<u>\$ 3,852,830</u>	<u>\$3,841,068</u>

Long-term debt

The Academy repaid principal on long-term debt of \$224,981 during 2005. This includes additional principal paid on demand bonds of \$40,000. The Academy borrowed \$40,499 during the school year for to purchase equipment necessary to continue operations. See Note 6 for more information.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

The foundation allowance has increase \$175 per student to \$7,175, an increase of 2.5%. The 2005-2006 student count was anticipated to increase to 365 students. Total general fund revenues for 2005-2006 were budgeted at \$3,158,342 reflecting a slight increase in state aid and special education revenues. Total expenses for 2005-2006 were estimated at \$3,139,185. The Academy continues to place emphasis upon enrollment increases through new working strategies, most notably in the area of environmental science programming and outreach. Enrollment growth will be imperative in establishing financial stability, allowing for facility expansion, and offering additional programmatic opportunities.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, at P.O. Box 141493, Grand Rapids, Michigan, 49514. Phone (616) 785-8440.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 18,777
Intergovernmental receivables	521,069
Prepaid expenses	5,511
TOTAL CURRENT ASSETS	545,357
NONCURRENT ASSETS:	
Restricted cash	140,488
Capital assets	4,074,326
Less accumulated depreciation	(221,496)
Net capital assets	3,852,830
TOTAL NONCURRENT ASSETS	3,993,318
TOTAL ASSETS	\$ 4,538,675
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 43,622
Accrued salaries and related items	238,917
Other accrued expenses	13,368
Deferred revenue	5,000
State aid anticipation note	81,478
Current portion of long-term obligations	187,183
TOTAL CURRENT LIABILITIES	569,568
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	2,243,335
TOTAL LIABILITIES	2,812,903
NET ASSETS:	
Invested in capital assets, net of related debt	1,422,312
Restricted for debt service	222,423
Unrestricted	81,037
TOTAL NET ASSETS	1,725,772
TOTAL LIABILITIES AND NET ASSETS	\$ 4,538,675

See notes to financial statements.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 1,458,816	\$	\$ 425,976	\$ (1,032,840)
Support services	1,215,229	101	115,491	(1,099,637)
Community services	4,436			(4,436)
Food services	160,217	17,978	108,371	(33,868)
Interest and fees	108,037			(108,037)
Unallocated depreciation	76,917			(76,917)
Total governmental activities	<u>\$ 3,023,652</u>	<u>\$ 18,079</u>	<u>\$ 649,838</u>	<u>(2,355,735)</u>
General revenues:				
Investment earnings				1,947
State sources				2,288,740
Other				4,617
Incoming transfers from Kent ISD				<u>193,307</u>
Total general revenues				<u>2,488,611</u>
CHANGE IN NET ASSETS				132,876
NET ASSETS , beginning of year (as restated, see note 13)				<u>1,592,896</u>
NET ASSETS , end of year				<u>\$ 1,725,772</u>

See notes to financial statements.

BALANCE SHEET GOVERNMENTAL FUNDS

ASSETS

LIABILITIES AND FUND BALANCES

LIABILITIES AND NET ASSETS

FUND BALANCES:

Total governmental fund balances

are different because:

Capital assets used in governmental activities are not financial resources and

\$ 4,074,326

(221,496)

3,852,830

reported in the funds:

(2,395,000)

(35,518)

collected after September 1, 2005

75,466

Net assets of governmental activities

\$ 1,725,772

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005**

[illegible]

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Net change in fund balances total governmental funds	\$ (67,700)
---	--------------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(76,917)
Capital outlay	88,679

Repayments of principal on long-term debts are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities).

Principal repayment - revenue bonds	220,000
Principal repayment - bank note	4,981
Proceeds from bank note	(40,499)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year	(71,134)
Deferred revenue end of the year	75,466

Change in net assets of governmental activities	\$ 132,876
--	-------------------

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the West Michigan Academy of Environmental Science have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The West Michigan Academy of Environmental Science (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Central Michigan University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2009. The Academy's Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on certificates of participation.

Other Non-major Funds

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in the special revenue fund.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when received within 60 days of year end. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2005, the foundation allowance was based on pupil membership counts taken in February and September of 2004.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits accounts.

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intend to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building	50 years
Furniture and equipment	10-15 years
Technology	3 years
Vehicles	8 years

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

5. Long-term Obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

7. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Annual appropriations lapse at year end.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2005. The Academy does not consider these amendments to be significant.

NOTE 3 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2005, approximately \$26,000 of the Academy's bank balance of approximately \$228,000 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized. The \$140,488 of cash in the debt service fund is restricted for repayment of the variable rate demand bonds.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,200,000	\$	\$	\$ 1,200,000
Capital assets, being depreciated:				
Buildings	2,565,087			2,565,087
Furniture and equipment	131,977	44,999		176,976
Technology	73,583	43,680		117,263
Vehicles	15,000			15,000
Total capital assets, being depreciated	2,785,647	88,679		2,874,326
Accumulated depreciation:				
Buildings	47,027	51,301		98,328
Furniture and equipment	25,180	12,942		38,122
Technology	71,278	10,799		82,077
Vehicles	1,094	1,875		2,969
Total accumulated depreciation	144,579	76,917		221,496
Net capital assets being depreciated	2,641,068	11,762		2,652,830
Net governmental capital assets	\$ 3,841,068	\$ 11,762	\$	\$ 3,852,830

Depreciation for the fiscal year ended June 30, 2005 amounted to \$76,917. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NOTE PAYABLE

At June 30, 2005, the Academy has \$81,478 outstanding from a state aid anticipation note dated August 20, 2004. The note, which has an interest rate of 3.99%, matures July 20, 2005. The note is secured by future state school aid payments.

Balance June 30, 2004	Additions	Payments	Balance June 30, 2005
<u>\$ 138,335</u>	<u>\$ 800,000</u>	<u>\$ 856,857</u>	<u>\$ 81,478</u>

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2005:

	Variable rate demand revenue bonds	Bank note	Total
Long-term debt, July 1, 2004	\$ 2,615,000	\$	\$ 2,615,000
Additions:			
Bank note		40,499	40,499
Deductions:			
Principal payments	(220,000)	(4,981)	(224,981)
Balance, June 30, 2005	2,395,000	35,518	2,430,518
Less current portion	(180,000)	(7,183)	(187,183)
Total due after one year	<u>\$ 2,215,000</u>	<u>\$ 28,335</u>	<u>\$ 2,243,335</u>

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term debt currently outstanding is as follows:

Installment purchase agreement related to the Michigan Public Education Facilities Authority Limited Obligation Variable rate demand revenue bonds series 2003. Principal is due in annual installments of \$180,000 through December 2017 and \$55,000 in December 2018 with variable interest (2.56% at June 30, 2005, see Note 7 for interest rate swap). The installment purchase agreement is secured by up to 20% of future state aid payments.	\$2,395,000
Note payable with monthly installments of \$841 through October 2009, with an interest rate of 9%. The loan is secured by the related equipment.	<u>35,518</u>
	<u><u>\$2,430,518</u></u>

The annual requirements to amortize long-term debts outstanding, including estimated interest of \$591,400 (using rates and the swap in effect as of June 30, 2005) are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 187,183	\$ 87,748	\$ 274,931
2007	187,857	80,548	268,405
2008	188,594	73,176	261,770
2009	189,400	65,614	255,014
2010	182,484	58,081	240,565
2011 - 2015	900,000	180,406	1,080,406
2016 - 2019	<u>595,000</u>	<u>24,395</u>	<u>619,395</u>
	<u><u>\$2,430,518</u></u>	<u><u>\$ 569,968</u></u>	<u><u>\$ 3,000,486</u></u>

An amount of \$167,923 is available in the debt service funds to service the bonds. The bonds may be paid off early at the discretion of the Academy at stated amounts based on the terms of the agreement.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Concluded)

The variable rate demand bonds carry interest at a synthetic rate of 3.7% (see Note 7). The demand bondholders have the right to receive all outstanding principal and accrued interest on the bond upon demand prior to the maturity of the bonds. The Academy has entered into a remarketing agreement with Fifth Third Bank to resell bonds in the event that a demand for payment is made. In addition, the Academy has a letter of credit agreement in the same amount as the outstanding bonds, to ensure that funds will be available to purchase bonds for which payment is demanded. The annual fee for the letter of credit is approximately 1.5% of the outstanding bond principal. This was approximately \$37,000 for 2005. There were no amounts outstanding on the letter of credit at June 30, 2005. The building and other property purchased with the bond proceeds are pledged as collateral for the repurchase agreement with the bank.

As explained in note 7, the Academy has entered into an interest rate swap agreement. Using the rates as of June 30, 2005, the debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain the same for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal year ending June 30,	Principal	Interest	Interest rate swaps, net	Total principal and interest
2006	\$ 180,000	\$ 58,624	\$ 26,219	\$ 264,843
2007	180,000	54,016	24,301	258,317
2008	180,000	49,408	22,274	251,682
2009	180,000	44,800	20,126	244,926
2010	180,000	40,192	17,852	238,044
2011 - 2015	900,000	131,840	48,566	1,080,406
2016 - 2019	595,000	24,395		619,395
	<u>\$ 2,395,000</u>	<u>\$ 403,275</u>	<u>\$ 159,338</u>	<u>\$ 2,957,613</u>

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - INTEREST RATE SWAP AGREEMENT

Objective - As a means to protect itself against rising interest rates related to its variable rate demand bonds issued in December 2003, the Academy has entered into an interest rate swap agreement (swap). The intention of the swap is effectively to change the Academy's variable rate of the bonds to a synthetic rate of 3.7%.

Terms - The swap was entered into in December 2004. The notional value of the swap and the principal amount of the bonds decline at a similar but not exact amount each year through the maturity of the swap in December 2014. Under the swap, the Academy pays the counterparty a fixed payment of 3.7% and receives a variable-rate payment computed base on the USD-BMA Municipal Swap Index. Conversely, the bond's variable-rate coupons adjust on a weekly basis.

Fair value - As of June 30, 2005, the swap has a negative fair value of \$53,704. The fair value is based on a replacement trade that would match the maturities and notional amounts of the existing swap.

Credit risk - As of June 30, 2005, the swap is not exposed to credit risk because the swap had a negative fair value. However, should the interest rates change and the fair value of the swap become positive, the Academy would be exposed to credit risk in the amount of the swaps fair value. The counterparty is rated AA as of the date of the financial statements. There is no collateralization of the swap from the counterparty to mitigate the credit risk of the Academy.

Termination risk - The Academy may terminate the swap under provisions of the swap agreement. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the Academy would be liable to the counterparty for a payment equal to the swap's fair value.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2005 are as follows:

Receivable Fund		Payable Fund	
Food service	\$ 4,211	General	\$ 31,646
Debt service	<u>27,435</u>		
	<u>\$ 31,646</u>		

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - TRANSFERS

Operating transfers between the governmental funds were as follows:

<u>Operating transfers out</u>		<u>Operating transfers in</u>	
General fund	<u>\$ 341,851</u>	Debt service fund	\$ 299,750
		Special revenue fund	<u>42,101</u>
			<u>\$ 341,851</u>

Operating transfers were made to the debt service fund to pay bond principal and interest and to the special revenue fund (food service) to cover operating expenditures.

NOTE 10 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to the Central Michigan University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2005, the Academy incurred expense of approximately \$69,000 for oversight fees.

NOTE 11 - MANAGEMENT AGREEMENT

The Academy had entered into a five year (through June 2007) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy is \$250,000 for the fiscal year 2005.

NOTE 12 - PURCHASED SERVICES

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 13 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 14 - PRIOR PERIOD ADJUSTMENT

The June 30, 2004 Academy-wide financial statements as originally issued did not contain \$71,134 of intergovernmental receivables on the statement of net assets. The beginning net asset balance at July 1, 2004 has been restated to increase net assets by this amount.

NOTE 15 - FEDERAL EXPENDITURE RECONCILIATION

The statement of revenues, expenditures and changes in fund balances includes \$61,188 of federal sources revenues that was expended during the 2004 fiscal year. The revenues were not recognized in 2004 on the modified accrual basis since the cash was not received until after 60 days of the end of the fiscal year. Federal expenditures for the year ended June 30, 2005 amounted to:

2005 federal sources revenue - governmental funds	\$ 523,443
Less amount expended during 2004 - recognized in the government funds in 2005	<u>(61,188)</u>
2005 federal expenditures as defined by OMB Circular A-133	<u><u>\$ 462,255</u></u>

Since federal expenditures were below the \$500,000 threshold an audit in accordance with OMB Circular A-133, *Audits of State, Local Governments and Non-Profit Organization*, is not required for the year ended June 30, 2005.

NOTE 16 - SUBSEQUENT EVENT

The Academy borrowed \$800,000 in August 2005 with a state aid anticipation note with interest at 6.26%.

REQUIRED SUPPLEMENTARY INFORMATION

WEST MICHIGAN ACADEMNY OF ENVIRONMENTAL SCIENCE
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	Original budget	Final budget	Actual	Variance with final budget positive negative
REVENUES:				
Local	\$ 17,800	\$ 30,994	\$ 4,749	\$ (26,245)
State sources	2,542,206	2,532,609	2,468,587	(64,022)
Federal sources	183,907	367,750	432,754	65,004
Incoming transfers	82,732	117,841	117,841	
Total revenues	2,826,645	3,049,194	3,023,931	(25,263)
EXPENDITURES:				
Instruction:				
Basic programs	898,730	901,915	983,612	(81,697)
Added needs	419,386	546,726	563,883	(17,157)
Total instruction	1,318,116	1,448,641	1,547,495	(98,854)
Support services:				
Pupil	118,994	118,776	121,992	(3,216)
Instructional staff	132,591	200,934	165,811	35,123
General administration	383,325	366,220	332,287	33,933
School administration	301,249	271,981	270,383	1,598
Business	31,000	34,800	24,880	9,920
Operation and maintenance	321,500	256,327	281,971	(25,644)
Pupil transportation services	7,500	2,000	1,450	550
Central support services	25,000	20,000	16,455	3,545
Total support services	1,321,159	1,271,038	1,215,229	55,809
EXPENDITURES (Concluded):				
Community services:				
Custody and care of children	\$ 62,861	\$ 1,000	\$ 4,436	\$ (3,436)
Debt service:				
Principal retirement			4,981	(4,981)
Total expenditures	2,702,136	2,720,679	2,772,141	(51,462)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	124,509	328,515	251,790	(76,725)
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	(300,000)	(310,786)	(341,851)	(31,065)
Proceeds from note payable	72,000	40,000	40,499	499
Total other financing uses	(228,000)	(270,786)	(301,352)	(30,566)
NET CHANGE IN FUND BALANCE	\$ (103,491)	\$ 57,729	(49,562)	\$ (107,291)
FUND BALANCE:				
Beginning of year			98,101	
End of year			\$ 48,539	



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raack
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
West Michigan Academy of Environmental Science
Walker, Michigan

September 28, 2005

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Michigan Academy of Environmental Science as of and for the year ended June 30, 2005, which collectively comprise West Michigan Academy of Environmental Science's basic financial statements of the Academy and have issued our report thereon dated September 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Michigan Academy of Environmental Science's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Michigan Academy of Environmental Science's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of West Michigan Academy of Environmental Science in a separate letter dated September 28, 2005.

This report is intended for the information and use of the board of education, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants



Iamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

September 28, 2005

To the Board of Directors
West Michigan Academy of Environmental Science
Walker, Michigan

In planning and performing our audit of the financial statements of West Michigan Academy of Environmental Science for the year ended June 30, 2005, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated September 28, 2005, on the financial statements of West Michigan Academy of Environmental Science.

Segregate Payroll Duties

Currently, one employee processess substantially all payroll activity including; making pay rate changes, preparing the payroll for submission to the payroll company, reviewing and approving the processed payroll and possessing the signed payroll checks until distribution to employees.

We recommend that an independent member of management review the payroll reports provided by the payroll company for reasonableness. This review could be done on an after the fact basis. This individual should sign off on the report as evidence of their review and approval.

Cash disbursement documentation

During our testing of cash disbursements, we noted that approval for disbursements was not properly documented. The Academy should consider having the individual(s) approving disbursements sign off and date the invoice as evidence of approval. Doing so will help to ensure that only authorized expenditures are made and duplicate payments are not made to the vendor. Paid invoices should also be cancelled to indicate the date paid, check number, etc.

Purchase orders

It is our understanding that the Academy has a purchase order policy which requires purchase orders to be completed before a purchase is made. We noted during the audit that purchase orders were often not prepared or were not filed with the paid invoice. It is our understanding that management discovered, addressed and resolved this issue near the end of the 2005 fiscal year.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Directors
West Michigan Academy of
Environmental Science

3

September 28, 2005

This report is intended solely for the information and use of West Michigan Academy of Environmental Science, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costeisan + Ellis, P.C.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Racek
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

September 28, 2005

To the Board of Directors
West Michigan Academy of
Environmental Science of Environmental Science
Walker, Michigan

We have audited the financial statements of West Michigan Academy of Environmental Science for the year ended June 30, 2005, and have issued our report thereon dated September 28, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Accounting Principles Generally Accepted in the United States of America

As stated in our engagement letter dated May 6, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of West Michigan Academy of Environmental Science. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of West Michigan Academy of Environmental Science compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

2. Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by West Michigan Academy of Environmental Science are described in Note 1 to the financial statements. The Academy adopted GASB Statement No. 40, "*Deposit & Investment Risk Disclosures*", during 2005. We noted no transactions entered into by the Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Academy's financial reporting process (that is, cause future financial statements to be materially misstated). Significant adjustments were made to accounts payable, accrued salaries and other accrued expenses. The net effect of all journal entries recorded in the general fund was to increase the expenditures over revenues by approximately \$116,000.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. Significant additional time was spent to address and adjust account balances dating back to the fiscal year 2004. This caused significant delays in finalizing our audit.

This information is intended solely for the use of Board of Directors and management of West Michigan Academy of Environmental Science and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan + Ellis, P.C.